

1998 REPORT TO THE GOVERNOR AND GENERAL ASSEMBLY



Building Partnerships to Benefit Our Communities
and Safeguard Virginia's Charities

1998 Charitable Gaming Highlights

Protecting the bingo industry.....

The Charitable Gaming Commission received nearly 200 complaints of gaming violations, and subsequent investigations resulted in the indictment of eleven individuals and the conviction of seven. Eight of these individuals were complicit in defrauding organizations that have historically generated receipts in excess of \$1 million annually, including four of Virginia's twenty-five largest gaming operations for 1998.

Cases ranged in severity from a member of an organization stealing pull-tab tickets to Virginia's first major joint state-federal bingo fraud investigation that uncovered an intricate conspiracy that swindled hundreds of thousands of dollars from three different groups. In all of these cases, the gaming organization and the charities they support were the victims. To combat this bingo fraud problem, the CGC is committed in its enforcement efforts, and has assigned additional Special Agents in the field to investigate complaints. Educational outreach efforts have also been made in instructing organizations on how they may prevent fraud and embezzlement before it occurs.

Serving Virginia's charities.....

Higher compliance standards and increased emphasis on charitable giving has resulted in approximately 13% of all gaming money generated in Virginia this year being used to support charity. This percentage has increased from the estimated 2-3% that was being contributed to charity when the CGC was established three years ago, and well exceeds the national average of 8.9%.

Reducing financial burdens.....

The CGC approved a sweeping financial relief initiative that reduced the audit and administration fees paid by gaming organizations to 1% and placed a moratorium on all audit fee payments for the first three quarters of the 1999 fiscal year. Statewide, the plan will result in an additional \$2.5 million available to benefit charities.

Cutting red tape.....

Charitable gaming rules and regulations are cut to twelve pages, a reduction of over 75% from the original interim regulations. Annual financial reporting forms are now only four pages long, and the quarterly report is just one page. Feedback from the gaming community and other concerned Virginians resulted in streamlined paperwork and leaner, more equitable rules that govern gaming.

Demonstrating fiscal responsibility.....

The CGC wrapped up a massive refund program where \$1.1 million was returned to 400 organizations across Virginia for charitable purposes. Since its inception, the CGC has reduced the audit fee three times from the original 2% level and has instituted two multi-million dollar financial relief programs that benefited charitable organizations and programs.

Redefining the role of government.....

The CGC staff traveled to thirteen locations in every corner of the Commonwealth to train nearly 400 volunteers in the laws, regulations and subtleties of the gaming industry, and has visited dozens of other organizations to provide one-on-one guidance. Additionally, a guideline document, created with input from the gaming community, was issued that for the first time clearly explains how gaming proceeds may be spent.

Leveling the playing field.....

Legislation was enacted that gives greater flexibility to fraternal and veterans' organizations in how they may spend their charitable gaming proceeds. By supporting this legislation, the CGC recognizes and supports the important roles these organizations play in Virginia. Furthermore, the General Assembly eliminated a bingo admissions tax levied by four localities, thereby providing relief to nearly fifty gaming organizations that will now have an additional \$450,000 available to benefit charities located in the Peninsula and South Hampton Roads.

Leading the nation.....

The CGC hosted the 1998 North American Gaming Regulators Association (NAGRA) conference in Norfolk, which brought together gaming industry professionals and regulators from across the country for an exchange of ideas that will benefit Virginia's gaming community. Executive Secretary Jerry Rowe was recognized as an expert in his field when he was named Chairman of the NAGRA Charitable Gaming Committee.



Vice-Chairman
Harold D. Slemm,
Marion.



Commissioner
Michael R. Lincoln,
Fairfax County.



Commissioner
Nancy B. Pfeiffer,
Cumberland.



Commissioner
Herbert C. Clay,
Marion.



Commissioner
Jan W. Stem,
Glen Allen.



Commissioner
Kevin Gentry,
Fairfax County.

A Message from the Charitable Gaming Commission

Dear Governor Gilmore and Members of the General Assembly,

Three short years ago, the Charitable Gaming Commission was created to address critical problems in Virginia's gaming industry, including a substantial and well publicized criminal case and the distressing realization that as little as 2% of the proceeds generated from charitable gaming were actually being used to support charities.

At that time, the Commission made some promises that have since been incorporated as the guiding principles that govern every aspect of the Commission's day-to-day operations. First and foremost, the Commission dedicated itself to restoring a sense of integrity to Virginia's gaming industry through the investigation and prosecution of any corrupt bingo operator or volunteer who would steal money intended for charity.

Second, we sought to increase dramatically the amount of gaming proceeds directed to Virginia's worthy charitable and community causes, thereby reestablishing the original purpose of this form of legalized gambling. Finally, in the spirit of Virginia's limited government tradition, the Commission believes it is morally obligated to execute these first two goals in the least burdensome, most efficient manner possible.

We are pleased to report that the Charitable Gaming Commission has kept its promises to you and the people of the Commonwealth. Today, our gaming industry is more secure, more uniformly and effectively regulated and provides over five times more money to charity than just three years ago. The enclosed report clearly documents the Commission's substantial efforts in the last twelve months towards realizing these goals, and represents our commitment to instituting sound policies that will continue to improve our internal operations and ensure the future well-being of Virginia's charities.

Sincerely,

Edward J. Fuhr
Chairman



Chairman
Edward J. Fuhr,
Henrico County.

Safeguarding Virginia's Charities

The past twelve months amply demonstrate that the examples of corruption in Virginia's charitable gaming industry that prompted the General Assembly to create the Charitable Gaming Commission have not diminished. In fact, CGC investigations have revealed that the threat to the integrity of our charitable organizations may be more pervasive than originally believed. Although there are relatively few bad actors on the gaming scene, it appears that no gaming organization, regardless of membership composition or geographical location, is immune to the destructive effects they can cause. The Charitable Gaming Commission is confident that the enforcement efforts undertaken over the last year have created a heightened sense of security that benefits non-profit organizations, bingo players and charities across the Commonwealth.

Virginia Beach—A volunteer for a fraternal organization pleaded guilty to two counts of embezzling proceeds from the sale of bingo paper. She was sentenced to three years in prison, suspended, on the condition she pay the organization \$1,000 in restitution.

Front Royal—The bingo manager of one of Virginia's largest gaming organizations was sentenced to ten years in jail, suspended, and ordered to repay \$55,000 after pleading guilty to nine counts of embezzlement. The organization, which sells over \$2 million in pull-tabs annually, alleged that the game manager took more than \$300,000.

Hampton—Four landlords of a now defunct bingo parlor were indicted for conducting an illegal gambling operation and embezzling funds from organizations that rented their hall by skimming proceeds intended for charity. The scheme involved utilizing the charitable gaming permits of non-profit organizations to conduct bingo. In turn, the landlords returned a portion of the proceeds to the organizations and allegedly retained the remainder of the profits for personal benefit.

Henrico County

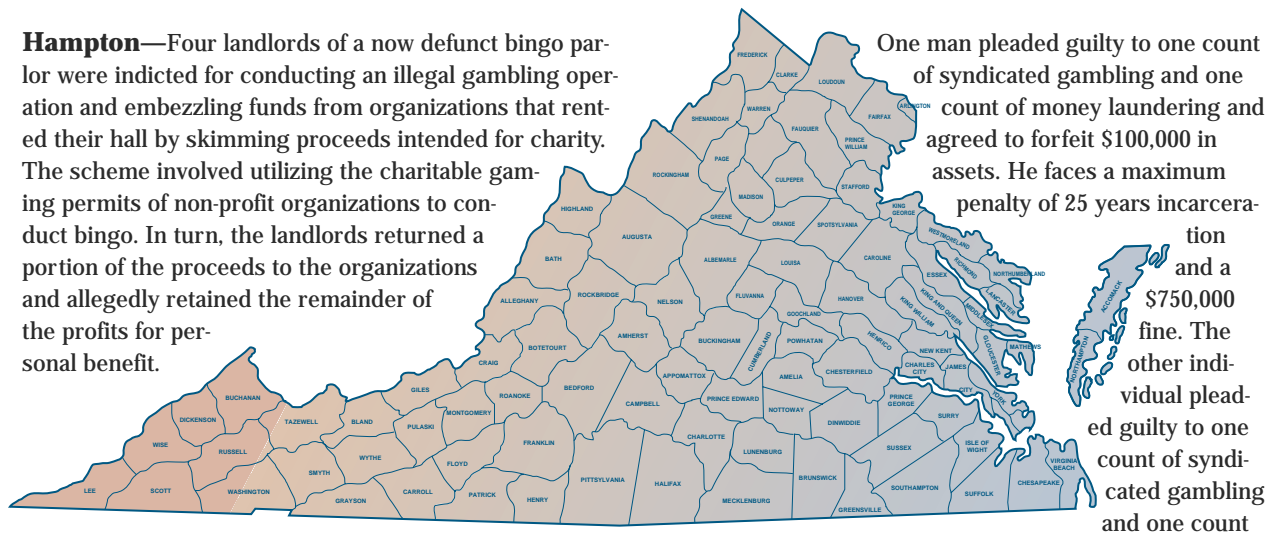
A trustee of a fraternal lodge pleaded guilty to one count of grand larceny after stealing pull-tabs with the approximate face value of \$3,000. He admitted redeeming the winning tickets as though he legitimately purchased them, and received \$2,000. The man was given a suspended jail sentence of twelve months and ordered to pay restitution in the amount of \$2,959.

Portsmouth—The bingo manager of a little league was sentenced to two years in jail, suspended, and fined \$30,000, with \$28,500 suspended after pleading guilty to one felony count of embezzlement. He was also ordered to pay \$3,763 in restitution and will be on supervised probation until the amount is paid. The man was complicit in concealing the purchase of thousands of instant bingo tickets off the books.

Fairfax County—The game manager of a civic group pleaded guilty to one count of obtaining money under false pretenses and was sentenced to twelve months in jail, suspended, and ordered to pay \$3,000 in restitution.

Virginia Beach—The acting bingo manager of a humane society was indicted on one felony count of embezzlement. It was alleged that she stole boxes of instant bingo tickets from the organization, had volunteers sell them at the organization's regular bingo game, and embezzled the profits. The estimated loss to the organization was \$9,000.

Abingdon—Two Tennessee men pleaded guilty to federal charges relating to previous indictments alleging they conspired to manage, operate and conduct three illegal bingo operations in Bristol and Scott County.



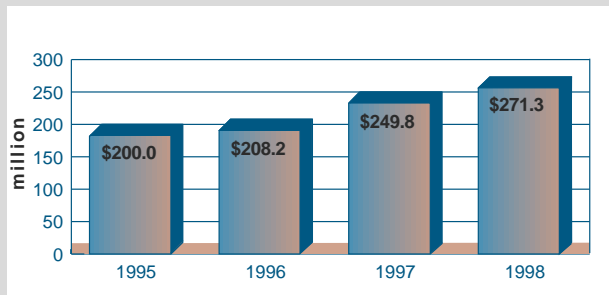
of tax fraud and agreed to forfeit over \$80,000 in assets. He faces a maximum penalty of 10 years incarceration and a \$500,000 fine. This joint federal-CGC investigation revealed that the individuals received a percentage of the net proceeds from each organization based on game attendance. They also prepared nightly financial reports for all three organizations that concealed their receipt of a percentage of the profits and disguised a portion of the receipts as rent and supplies. In addition, the individuals caused the three organizations to write checks payable to an individual and a supply company, which concealed and disguised their receipt of proceeds from the illegal gambling business.

Virginia Beach—The game manager for a youth organization was indicted on one count of embezzlement and one count of operating an illegal gambling enterprise. The indictments allege the woman misappropriated \$18,000 by using discount coupons to conceal gaming proceeds diverted to pay workers and make deposits into personal bank accounts.

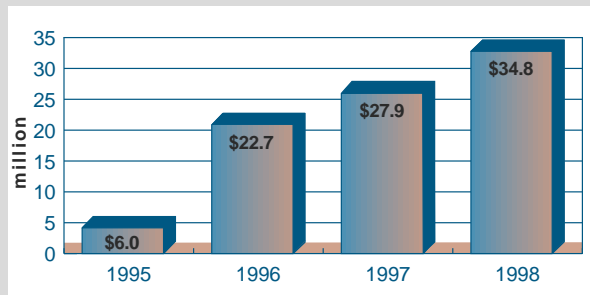
Benefiting Our Communities

Uniform regulations and a heightened climate of security in the gaming industry have resulted in steadily increasing gaming revenues that benefit Virginia's charitable and community causes.

Gross Gaming Receipts



Charitable and Community Expenditures



*1995 figures based on data provided to the CGC by localities that had previously regulated gaming.

*1998 figures based on 529 unaudited financial reports received as of February 17, 1999.

Gaming is big business in the Commonwealth.

Below are Virginia's ten largest organizations for Fiscal Year 1998.

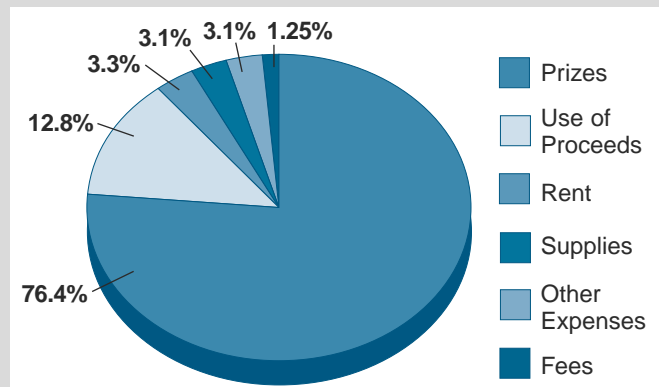
Organization	Locality	Reported 1998 Gross	Organization	Locality	Reported 1998 Gross
1 Fraternal Order of Eagles 824	Winchester	\$6,568,533	6 Loyal Order of Moose 829	Front Royal	\$2,256,266
2 Loyal Order of of Moose 575	Woodstock	\$2,714,981	7 American Legion Post 53	Front Royal	\$2,218,726
3 Loyal Order of Moose 1283	Winchester	\$2,674,904	8 Fraternal Order of Eagles 4123	Fredericksburg	\$2,199,065
4 VFW Post 1860	Front Royal	\$2,427,489	9 Old Dominion Aquatic Club	Virginia Beach	\$2,179,399
5 Fraternal Order of Eagles 4150	Harrisonburg	\$2,265,408	10 Boys Club of Annandale	Annandale	\$2,073,218

Based on gross receipts

Virginia's 1998 Charitable Gaming Dollar

Many people do not realize that three-quarters of all gaming revenues are paid back to the players in prizes. Charitable donations are increasing and prize pay-outs have stabilized, as Virginia continues to prioritize the "charitable" and de-emphasize the "gaming".

Based on adjusted receipts



Building Partnerships

On behalf of the Charitable Gaming Commission staff, I would like to thank the thousands of volunteers across the Commonwealth that have dedicated their time to raise money for those in need and to help fund schools, churches, community groups, fire and rescue squads and many other worthwhile causes. Their dedication has served Virginia well.

The partnership between the Commission and Virginia's charitable organizations has already produced some significant results and milestones that are highlighted in this report. These results would not have been possible without everyone pulling together in the same direction. But, in the end, most of the credit has to go to the volunteers. They are the ones who donate the many hours to work and manage charitable gaming in an unending effort to keep the dollars flowing to charities.

Jerry W. Rowe
Executive Secretary

"...I wish to publicly praise the work of the State Charitable Gaming Commission. In addition to playing a major role in apprehending bingo law violators, the Commission has reduced considerably the very heavy administrative workload on bingo managers without sacrificing its commitment to the maintenance of correct and verifiable record keeping requirements for bingo games. It has also managed to fulfill its mandate without demanding taxpayer funding, yet still has reduced audit fee costs placed on bingo operators to very reasonable levels."

—*Game Manager, Religious Organization, Peninsula*

"(Our organization) received your check...for refunded audit and administrative fees...What an unexpected surprise. My hat is off to a job well done by the Charitable Gaming Commission. We were long overdue for your much needed watchful eye and statewide uniform gaming rules."

—*President, Community Organization, South Hampton Roads*

"We...greatly appreciate the quality of support we receive from the Charitable Gaming Commission. We believe the support is provided at reduced cost and greatly expanded professionalism from the previous monitoring service from ...(the) county, which you have mentioned was formerly the best in the Commonwealth."

—*President, Civic Organization, Northern Virginia*

"The Gaming Commission has done a terrific job. They have a hard job, but it is good for player confidence and it's good for the industry as a whole."

—*Owner, Commercial Bingo Hall, South Hampton Roads*

"In September, the Charitable Gaming Commission sent out a booklet clarifying the use of proceeds and gaming expenses. Thanks to you, I was able to catch (an) error before the end of the year.... Again, thanks for the very helpful information that you regularly send to us."

—*Administrator, Fraternal Lodge, Roanoke Valley*

"Thank you. The Workshop was very helpful. It's very nice to know how much you wish for our success."

—*Vice-President, Educational Organization, South Hampton Roads*

1998 Financial Statement

The following financial statement of the Charitable Gaming Commission from the period July 1, 1997 to June 30, 1998, is provided in accordance with §18.2-340.18 (9) of the Code of Virginia.

Revenues.....\$ 2,345,970

Expenditures..\$ 1,785,286

Operating balance.....\$ 560,684

1999 Legislative Recommendations

The Commission undertook a thorough review of the charitable gaming law this year to determine what changes could best serve Virginia's charities. For the 1999 session, the Commission has recommended two amendments that would remove an excessively harsh sanction for late filing of financial reports and would allow the issuance of two-year gaming permits, thereby further reducing fees and paperwork. We look forward to working with you and your constituents to implement these positive proposals.

In general, however, the Commission does not recommend any major revisions to the gaming law at this time. As a result of greater familiarity with statewide oversight, the issuance of leaner regulations, the continuing reduction of fees and paperwork and other initiatives, the relationship between the Commission and Virginia's gaming community has prospered this year. The Commission hopes to build on these successes in 1999, so that charitable gaming issues can be addressed in a spirit of partnership, equity and reasonableness.

Exempt Organizations

Volunteer Fire Departments and Rescue Squads and organizations that realize less than \$25,000 in gross receipts annually are exempt by statute from filing permit applications, financial reports and paying an audit and administration fee.

Based on 122 exempt resolutions filed with the Commission as of February 17, 1999, it is estimated that Volunteer Fire Departments and Rescue Squads grossed over \$33.4 million from charitable gaming in 1998. Because these organizations are not required to provide full financial reports, their totals are not reflected in this report's cumulative data and analysis.



Virginia Charitable Gaming Commission

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